

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03

INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07

CEA-01 DODE-00 PA-01 AGRE-00 /092 W

-----032125 150056Z /20

R 140829Z JUL 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 8501

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E.O. 11652: N/A

TAGS: ECON, ETRD, RP

SUBJECT: PHILIPPINE TRADE BALANCE DETERIORATES

1. SUMMARY. THE FIRST QUARTER TRADE DEFICIT, \$329 MILLION, WAS 32 PCT HIGHER THAN LAST YEAR'S FIRST QUARTER DEFICIT, AS A 3.6 PCT INCREASE IN EXPORTS WAS MORE THAN OFFSET BY AN 11.2 PCT INCREASE IN IMPORTS. COCONUT PRODUCTS AND NONTRADITIONAL MANUFACTURED EXPORTS RECORDED IMPRESSIVE GAINS AND EVEN EXCEEDED CENTRAL BANK FIRST QUARTER TARGETS. HOWEVER, OVERALL EXPORTS MAY NOT MEET 1978 TARGETS IN THE ABSENCE OF A SHARP RECOVERY IN THE INTERNATIONAL ECONOMY. END SUMMARY.

2. BEGIN UNCLASSIFIED. SLUGGISH EXPORT GROWTH COMBINED WITH ACCELERATING IMPORTS TO INCREASE THE FIRST-QUARTER TRADE DEFICIT TO \$329 MILLION, 32 PCT HIGHER THAN THE DEFICIT FOR THE SAME PERIOD LAST YEAR. FOLLOWING ARE COMPARATIVE FIGURES (IN \$ MILLION):

-	JAN-MARCH 77	JAN-MAR 78	ABSOLUTE	PERCENT
-			CHANGE	CHANGE
EXPORTS	685	710	25	3.6

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IMPORTS	934	1039	105	11.2
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BALANCE	-249	-329	-80	32.1
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3. THE EXPORT PICTURE IS MIXED, WITH DECLINES IN TWO MAJOR CATEGORIES, SUGAR AND MINERAL PRODUCTS, OFFSET

BY COMBINED INCREASES IN ALL OTHER PRODUCTS. THIS IS ILLUSTRATED BY THE FOLLOWING COMPARISON OF PERFORMANCE BY THE MAJOR EXPORT GROUPS IN THE FIRST QUARTERS OF 1977 AND 1978, ON THE BASIS OF OFFICIAL CUSTOMS DATA (\$ MILLION):

EXPORT ITEM	JAN-MARCH 1977	JAN-MARCH 1978	PCT CHANGE
COCONUT PRODUCTS	138	185	34.1
SUGAR PRODUCTS	147	42	-71.4
FOREST PRODUCTS	55	71	29.5
MINERAL PRODUCTS	120	98	-19.5
FRUITS & VEGETABLES	39	40	3.6
MANUFACTURES	44	59	32.9
MISCELLANEOUS			
MANUFACTURES	111	152	36.9
OTHER	31	63	203.2

4. THE VALUE OF SUGAR EXPORTS IN THE FIRST QUARTER OF 1978 WAS LESS THAN ONE-THIRD OF LAST YEAR'S SHIPMENTS, DESPITE A 5 PCT PRICE IMPROVEMENT. VOLUME WAS 168,000 MT, DOWN SHARPLY FROM LAST YEAR'S ABNORMALLY HIGH SHIPMENTS OF 679,000 MT DURING THE FIRST QUARTER. THIS IS ABOUT 15 PCT OF THE ALLOWABLE TONNAGE FOR THE YEAR UNDER THE INTERNATIONAL SUGAR AGREEMENT, SO SHIPMENTS WILL UNDOUBTEDLY PICK UP DURING THE BALANCE OF THE YEAR. MINERAL EXPORTS ALSO DECREASED BY NEARLY 20 PCT ON ACCOUNT LIMITED OFFICIAL USE

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OF COMBINED PRICE AND VOLUME REDUCTIONS IN BOTH COPPER CONCENTRATES AND NICKEL. AVERAGE FIRST QUARTER PRICE OF COPPER IN 1978 WAS 15.7 PCT LOWER THAN THE AVERAGE PRICE IN 1977.

5. EXPORT GAINS, ON THE OTHER HAND, WERE PACED BY SUSTAINED GROWTH IN COCONUT PRODUCTS AND NONTRADITIONAL MANUFACTURES AS WELL AS A RENEWED GROWTH (29.5 PCT) IN FOREST PRODUCT EXPORTS, PRICES FOR WHICH HAVE BEEN PICKING UP SINCE LATE LAST YEAR. COCONUT PRODUCTS, THE TOP EXPORT EARNING GROUP, POSTED A 34.1 PCT GROWTH OVER THE COMPARABLE PERIOD LAST YEAR. PRICES FOR COPRA MEAL AND COCONUT OIL, WHICH COMPRISE MORE THAN 60 PCT OF COCONUT PRODUCT EXPORTS CHANGED SLIGHTLY, WHILE PRICES OF OTHER COCONUT PRODUCTS INCREASED. GAINS WERE DERIVED MAINLY FROM LARGER EXPORT VOLUMES, WHICH ARE EXPECTED TO CONTINUE FOR THE REST OF THE YEAR. PRICES ARE NOT EXPECTED TO IMPROVE AND MAY FALL. MANUFACTURED PRODUCTS CONTINUED THEIR STRONG PERFORMANCE FOR A COMBINED 32.9 PCT INCREASE IN THE FIRST QUARTER 1978 OVER THE FIRST QUARTER OF 1977, LED BY CLOTHING (24.5 PCT), TEXTILES (20.7 PCT) AND CHEMICALS (80.7 PCT). DESPITE BETTER

PRICES, EARNINGS FROM BANANA EXPORTS, A LEADING UNMANUFACTURED NONTRADITIONAL EXPORT, CONTINUED A DOWNWARD TREND SINCE 1977, WHILE PINEAPPLE PRODUCTS SHOWED A 36 PCT GROWTH IN VALUE.

7. LARGER IMPORTS WERE LED BY A 32.9 PCT INCREASE IN "CRUDE MATERIALS EXCEPT FUEL" AND A 40.6 PCT INCREASE IN "MISCELLANEOUS TRANSACTIONS AND COMMODITIES". THE

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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LATTER CATEGORY INCLUDES IMPORTS OF MATERIALS FOR MANUFACTURE ON CONSIGNMENT BASIS (PROMINENT EXAMPLES ARE RAW MATERIALS FOR GARMENTS AND ELECTRONIC PRODUCTS), THE LEADING PHILIPPINE IMPORT CATEGORY FROM THE U.S. IN 1977. END UNCLASSIFIED.

8. BEGIN LOU. WHILE THE FIRST QUARTER 1978 EXPORT PERFORMANCE SEEMS TO REFLECT A SIGNIFICANT DECLINE, THE OVER-ALL FIGURE IS 8.6 PCT BETTER THAN THE TARGET SET BY THE CENTRAL BANK EARLIER IN THE YEAR. THIS IS SHOWN IN THE FOLLOWING TABLE SUPPLIED BY THE CENTRAL BANK ON A CONFIDENTIAL BASIS. FIRST QUARTER PROJECTIONS ARE IN \$ MILLIONS.

-	ACTUAL		
-	EXPORTS	PERCENT	
EXPORT ITEM	JAN-MAR 1978	TARGET	DIFFERENCE
COCONUT PRODUCTS	185	157	17.8
SUGAR PRODUCTS	42	79	-46.8

FOREST PRODUCTS	71	74	-4.1
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MINERAL PRODUCTS	98	108	-9.3
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FRUITS AND

VEGETABLES	40	50	-20.0
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MANUFACTURES	59	62	-4.8
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MISCELLANEOUS

MANUFACTURES	111	99	12.1
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OTHER	63	25	52.0
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TOTAL	710	654	8.6
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THE STRONG PERFORMANCE OF COCONUT PRODUCTS AND OTHER MANUFACTURES MORE THAN OFFSET THE BELOW TARGET GROWTH IN ALL THE OTHER PRODUCT GROUPS PRIMARILY SUGAR AND FRUITS AND VEGETABLES. THE "MISCELLANEOUS MANUFACTURES" AND "OTHER" CATEGORIES INCLUDE MOST OF THE COUNTRY'S NONTRADITIONAL EXPORTS WHICH CONTINUE TO BE FAST EXPORT GAINERS.

8. ALTHOUGH FIRST QUARTER STATISTICS INDICATE A SLOW-DOWN OF EXPORT GROWTH FROM LAST YEAR, CENTRAL BANK GOVERNOR LICAROS SAID IN A RECENT TELEVISION INTERVIEW THAT "RISING EARNINGS FROM NONTRADITIONAL EXPORTS, DIVERSIFICATION OF EXPORT PRODUCTS AND A REBOUND IN THE PRICES OF SOME MAJOR EXPORT COMMODITIES" WOULD BOOST EXPORT EARNINGS TO REACH THE 18 PCT TARGET SET IN THE 5-YEAR PHILIPPINE DEVELOPMENT PLAN. HOWEVER, LICAROS ACKNOWLEDGED IN HIS MID-YEAR REPORT TO THE PRESIDENT, THAT MOST FORECASTS FOR THE YEAR DO NOT EXPECT ANY "SIGNIFICANT IMPROVEMENT IN THE INTERNATIONAL ENVIRON-

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MENT".

9. COMMENT: WHILE SUGAR SHOULD SHOW IMPROVED EARNINGS FOR THE BALANCE OF THE YEAR, IT SEEMS UNLIKELY BASED ON FIRST QUARTER PERFORMANCE THAT EXPORT EXPANSION WILL REACH THE 18 PCT TARGET. EMBASSY WILL SHORTLY REPORT

ON PRELIMINARY FOREIGN EXCHANGE RECEIPTS AND DISBURSE-
MENTS DATA FOR THE FIRST SEMESTER. END COMMENT. MURPHY

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